The CHESAPEAKE Corporation OF VIRGINIA

1959

ANNUAL REPORT

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CONTENTS

	PAGE
In Memoriam	2
Directors and Officers	3
Letter to Stockholders	4
Review of the Year in Brief	6
Financial Data	7
Production	7
Plant Improvements	8
Wood Supply and Forest Management	9
Safety Program	9
Sales vs. Profits	10
Book Value Per Share of Common Stock	10
Working Capital	11
Cash Flow	11
Equity of Common Stockholders	11
Employee Relations and Benefits	12
Operations of Subsidiary	12
A Tribute to Elis Olsson	12
Distribution of the Income Dollar	13
A Five-Year Comparison	14-15
Financial Statements	16-19
Accountants' Report	20

ANNUAL REPORT 1959

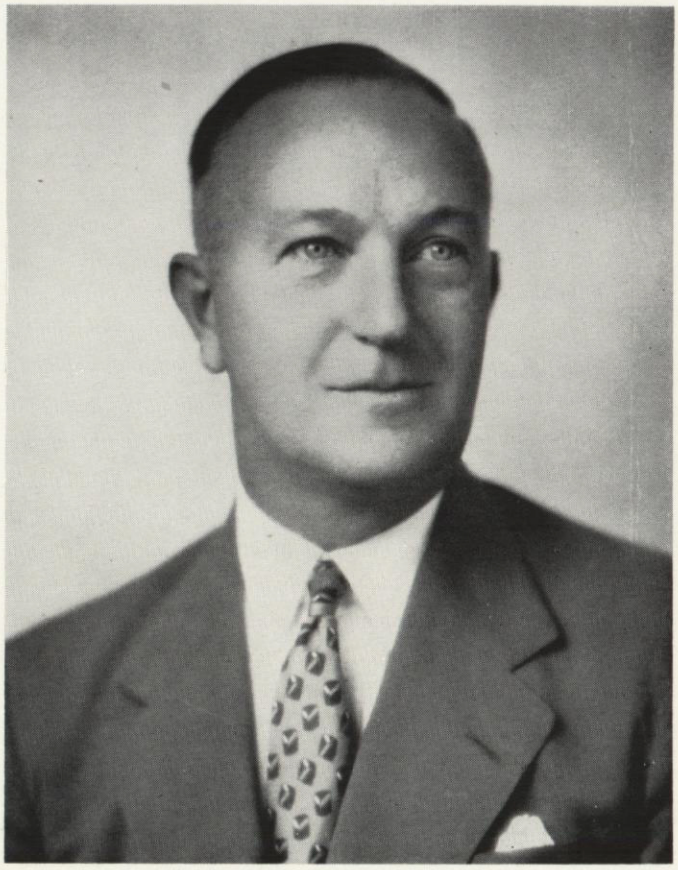
FOR THE YEAR ENDED JANUARY 3, 1960

THE CHESAPEAKE CORPORATION OF VIRGINIA

WEST POINT, VIRGINIA

In Memoriam

Elis Olsson
April 2, 1880 - May 24, 1959



Harry Hammill Augustine
November 14, 1892 - September 17, 1959

THE CHESAPEAKE CORPORATION OF VIRGINIA

DIRECTORS

Sture G. Olsson — Overton D. Dennis — T. Croxton Gordon

Henry Vranian — Carl A. Olsson — J. Scott Parrish, Jr.

M. C. McDonald — J. P. Ekberg — Charles C. Abbott

B. Warwick Davenport — L. Burwell Gunn

EXECUTIVE COMMITTEE

Sture G. Olsson

T. Croxton Gordon — Overton D. Dennis

OFFICERS

Sture G. Olsson, *President and General Manager*

Overton D. Dennis, *Vice-President and Treasurer*

Henry Vranian, *Vice-President and General Sales Manager*

Erik Zimmerman, *Vice-President and Production Manager*

Carl A. Olsson, *Vice-President and General Woodlands Manager*

A. Donald Rennie, *Comptroller and Assistant Treasurer*

Elizabeth S. Gray, *Secretary*

TRANSFER AGENTS

State-Planters Bank of Commerce and Trusts . . . . Richmond, Virginia

Chemical Bank New York Trust Company . . . . . New York, New York

REGISTRARS

First and Merchants National Bank of Richmond . . . Richmond, Virginia

The Hanover Bank . . . . . New York, New York

LETTER TO STOCKHOLDERS

Consolidated sales for 1959 reached an all-time high of $27,119,559, and consolidated earnings after taxes of $3,909,639 were almost equal to our record year of 1955. Consolidated earnings amounted to $3.28 per share of capital stock outstanding at the end of 1959 after taking into consideration the shares issued as a 3% stock dividend. The Company paid $1.20 per share in cash dividends on the shares outstanding prior to the payment of a 3% stock dividend on December 31, 1959. The remaining earnings were retained for investment in the business. On December 12, 1959, the Board of Directors declared a dividend of 30¢ per share, payable on February 15, 1960, to holders of record February 5, 1960.

While improved conditions contributed quite substantially to our improved earnings, the increased effort of our sales staff, manufacturing efficiencies from recent equipment installations, and improvements in our staff and service organization all played an important part in achieving the results shown.

Your management during 1959 organized a research and development department, thus formalizing our efforts to improve our present products and to develop new products. We are now organizing a market research division within the sales department in order that we may keep abreast of present markets as well as anticipate future demand for our manufactures. These two groups will work closely with each other and with other components of our organization.

Again looking to the future, we have completed a geological study of the availability of fresh water for use in an expanded operation; and we have begun a study to determine the availability of raw materials to sustain additional production. Discussions with the State Water Control Board have been opened on the question of stream effluent from additional production. The preliminary results of these investigations indicate favorable conditions for an increase in both our pulp and paper making facilities at some future date.

One of the problems facing industry today is the necessity for obtaining large amounts of capital to renovate and improve the efficiency of existing manufacturing facilities and to expand these facilities to meet the increased demands

for present product lines and for new products. In the opinion of your Board of Directors, the interests of the Company and its stockholders are best served by providing a considerable part of our capital needs from retained earnings. This policy has been consistently followed by your Company with the result that we have carried on a program of plant improvement and modernization without the use of borrowed funds, while at the same time the Company has paid a reasonable annual cash dividend to its stockholders. Any substantial expansion undertaken in the future, however, may necessitate the use of borrowed capital.

Your directors and officers have asked me to express their keen sense of loss in the deaths during the year of Mr. Elis Olsson and Mr. Harry Hammill Augustine. My father, who was an unfailing inspiration to us all, was a founder of the present Company and was associated with its management as an officer and director for approximately forty years. At the time of his death on May 24, 1959, he was a director and chairman of the Corporation. Mr. Augustine served as a director from March 3, 1952 until his death on September 17, 1959, and though his period of service was comparatively short, his astute judgment was of inestimable value. The wise counsel, imagination and sympathetic understanding of these two directors will be missed by the Company and all who served with them.

In accordance with our policy of acquainting you with matters of public interest about the Company, we are enclosing a reprint from the winter issue of the *Virginia Forests* magazine describing our long-range forest genetics program.

The directors and officers of the Company join me in taking this opportunity to express our gratitude for the continued loyal support of our customers, employees and stockholders and for their contribution to our progress during 1959.

STURE G. OLSSON,
President and General Manager

March 14, 1960

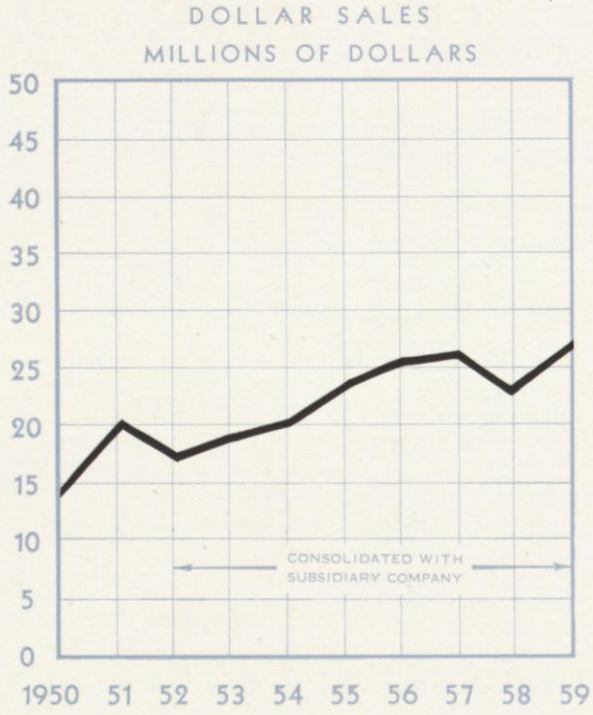
REVIEW OF THE YEAR IN BRIEF

	1959	1958
Net Sales	$27,119,559	$23,617,096
Earnings before Taxes	$8,247,304	$6,215,735
Federal and State Income Taxes	$4,337,665	$3,299,520
Net Earnings after Taxes	$3,909,639	$2,916,215
Earnings as a Per Cent of Sales	14.4%	12.3%
Common Shares Outstanding	1,190,405	1,156,656
Earnings Per Share of Common Stock	$3.28	$2.45*
Cash Dividends Declared—Per Share	$1.20	$1.20
Book Value Per Share	$26.55	$24.48*
Net Working Capital	$10,210,277	$7,328,158
Investment in Property, Plant, and Equipment (Net)	$19,960,562	$20,142,068
Number of Stockholders	2,610	2,520
Number of Employees	846	844
Finished Product Produced by Parent Company (Tons)	216,725	183,568

*Restated for comparative purposes to reflect 3% stock dividend issued in 1959.

SALES:

Net sales for the year ended January 3, 1960, (a fifty-three week year) were $27,119,559, the highest in the history of the Company and represented an increase of $3,502,463, or 14.8% over 1958. The Parent Company's tonnage sales of 216,725 tons is also a record volume and represents an increase of 18% in tonnage sales over the preceding year



EARNINGS, TAXES AND DIVIDENDS:

Consolidated net income after taxes was $3,909,639 in 1959 as compared with a net income of $2,916,215 in 1958. Computed upon 1,190,405 shares outstanding after distribution of a 3% stock dividend on December 31, 1959, the income was equal to $3.28 per share of capital stock. Income in 1958, after adjusting to the same number of shares, was equivalent to $2.45 per share. Net income was equivalent to 14% of net sales in 1959 as compared with 12% in 1958 and 14% in 1957. The 1959 income represents a return of 12% on the stockholders' year-end net equity.

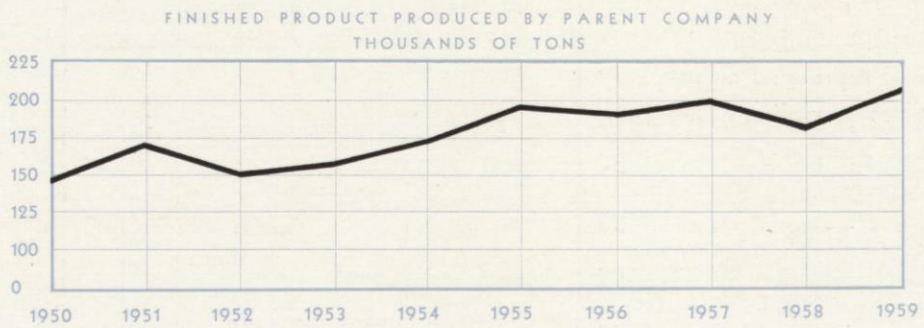
Of the Company's total profits, it was necessary to allocate $4,337,665 or $3.64 per share for the payment of income taxes. This is $0.36 more than was left for dividends and for reinvestment in the business.

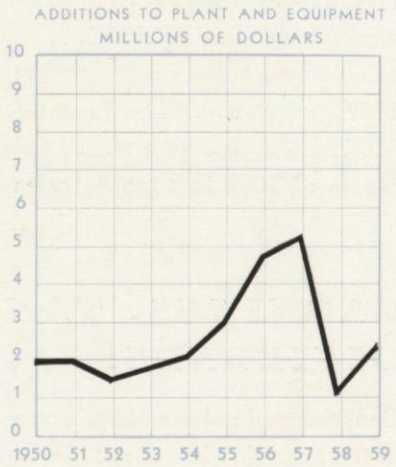
Cash dividends of $0.30 per share were paid quarterly on the outstanding capital stock. The cash dividends of $1.20 per share were the same as was paid in 1958. In addition to the payment of cash dividends, the Company distributed a 3% stock dividend to its stockholders on December 31, 1959. In connection with this distribution retained earnings were charged with $1,501,830.50, representing the market value of the shares issued, and with $42,305.26 for the amount paid in cash in lieu of fractional shares. Capital stock was credited with $168,745, the par value of the shares issued, and $1,333,085.50 was credited to other capital.

PRODUCTION:

Production of board, paper, and dry pulp in 1959 amounted to 216,725 tons, which is a record production for the Company. This tonnage compares with the production of 183,568 in 1958 or an increase of 18%. The production of board and paper increased by 17% during the year and the production of dry pulp increased

27%. The average daily tonnage produced by the board mill increased to 542 tons as compared with 520 tons in 1958.





PLANT IMPROVEMENTS:

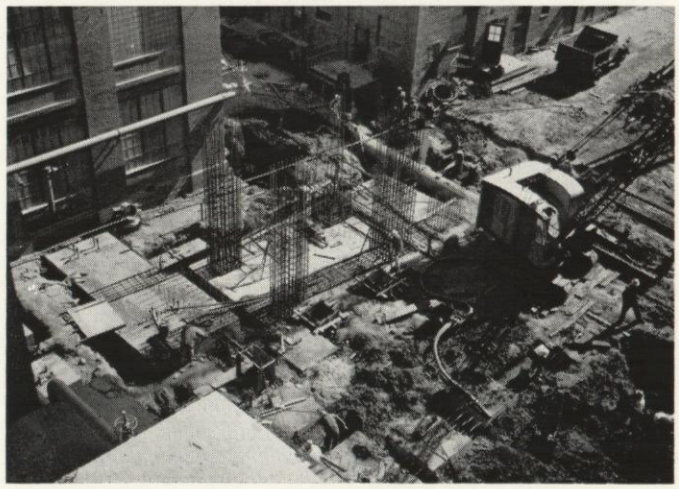
Chesapeake completed early last year the large warehouse begun in 1958 which connects with the finishing room of the paper mill. The all-metal structure has 45,000 square feet of space, with a capacity of 10,000 tons of product. It assures better service to customers and more efficient and flexible operation of the paper machine.

The Company installed specialized refining equipment to improve the quality of its market pulp. The improvement is expected to open new outlets for this product in the United States and abroad.

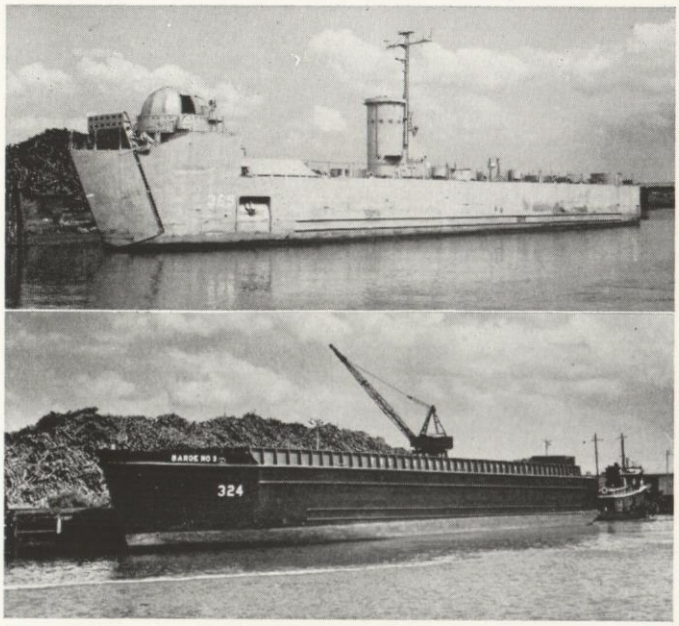
Chesapeake continued its program of improvement and expansion of operating facilities. At the end of the year, work was well advanced on enlargement of eight of the present eleven digesters. This rebuilding will eliminate three digesters, yet add approximately 20 per cent more pulping capacity by the spring of 1960.

By the fall of 1960, an addition to the power plant and installation of a new 12,500 kilowatt turbine generator are expected to be complete. The new generator will increase the power plant's capacity and replace obsolescent equipment.

Lift truck stacking rolls in new warehouse.



Work on foundations for addition to power plant.



Upper photo, one of two Navy L. S. M's, before conversion. Below, 500-cord barge converted from surplus vessel.

WOOD SUPPLY AND FOREST MANAGEMENT:

The Company further expanded its program of assisting landowners in developing their timberlands and clearing hardwood growth from cutover land. During the year approximately one hundred landowners received, at cost, the services of our bulldozing equipment to induce natural seeding of their tracts.

At the end of the year the Company owned approximately 214,500 acres of land, an increase of about 6,500 acres over the preceding year. Bulldozing continued on these lands, and more than 1,500,000 seedlings were planted.

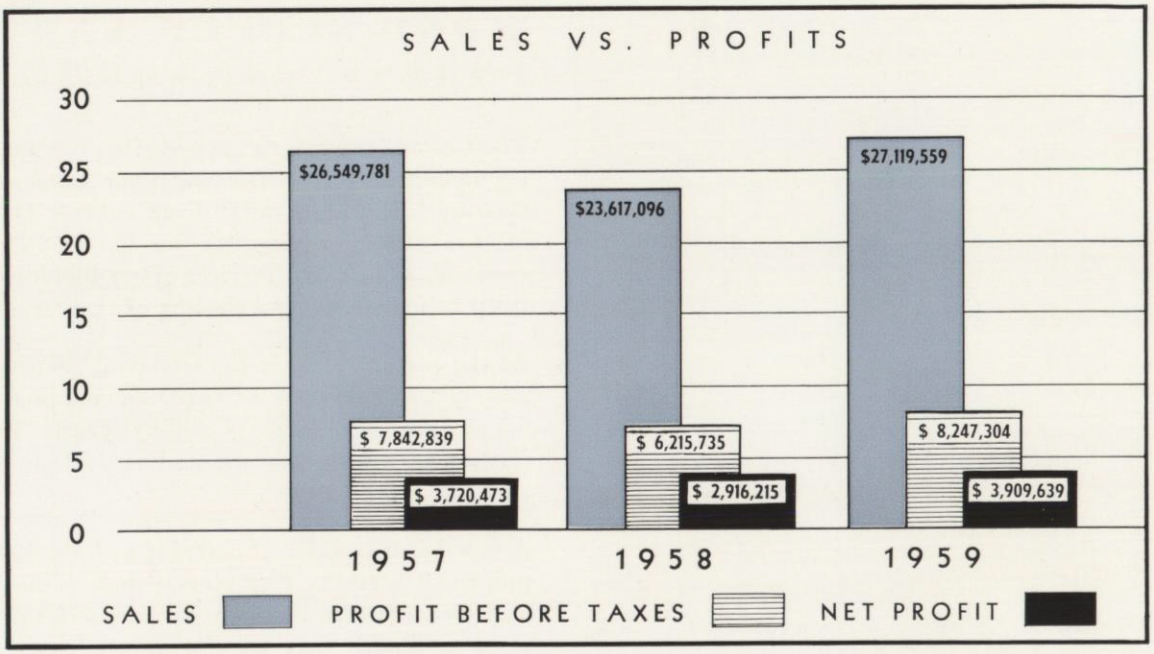
A new barge capable of carrying at least 500 cords of pulpwood was put into service during the year. It was converted from a surplus Navy LSM (landing ship, medium), and the Company began the conversion of another LSM purchased for this purpose. The new marine equipment, including a tug purchased in 1958, will assure faster loading schedules at our Maryland and Virginia landings.

SAFETY PROGRAM:

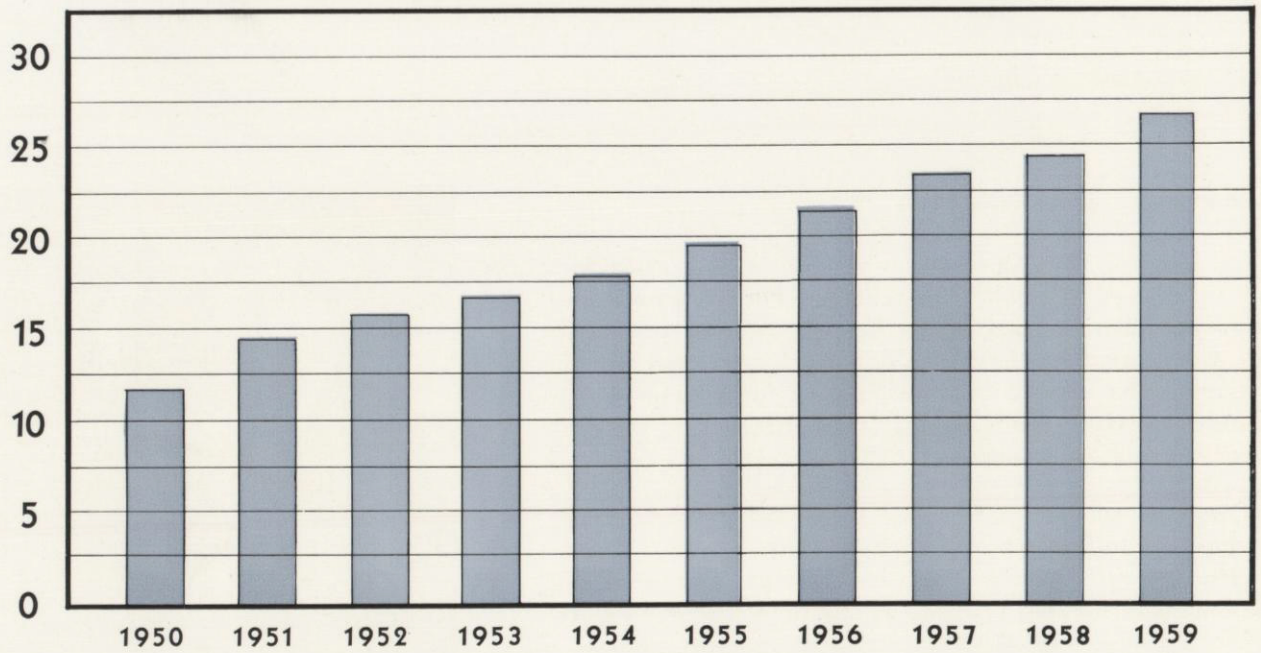
We are gratified that Chesapeake was recognized again last year for its record of accident prevention. For the second consecutive year the National Safety Council awarded first place to the Company for safety in pulpwood logging and marine operations. The Council and the Virginia Manufacturers Association also cited the Company's record of low accident frequency in mill operations.

The Company employs a full-time safety director who holds daily meetings to instruct employees in safety practices. Accident insurance rates are based to a large extent upon the record of the Company, and our rates are among the lowest in Virginia.

Vice President Zimmerman (left) receives safety award presented by Secretary Charles Taylor, of VMA.



BOOK VALUE PER SHARE OF COMMON STOCK



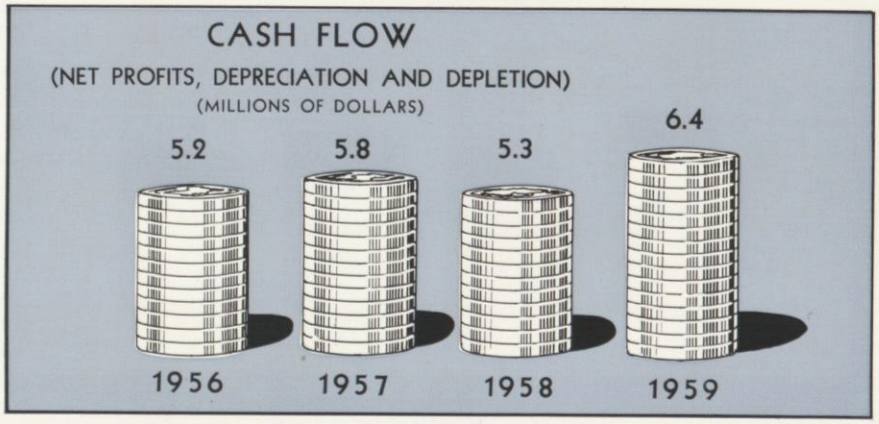
ALL PER SHARE VALUES ARE CALCULATED ON THE NUMBER OF SHARES OUTSTANDING AT JANUARY 3, 1960

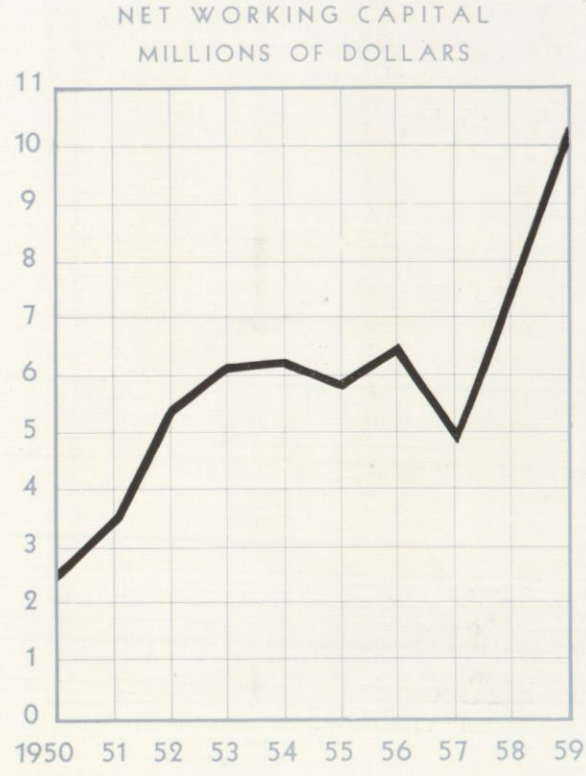
WORKING CAPITAL:

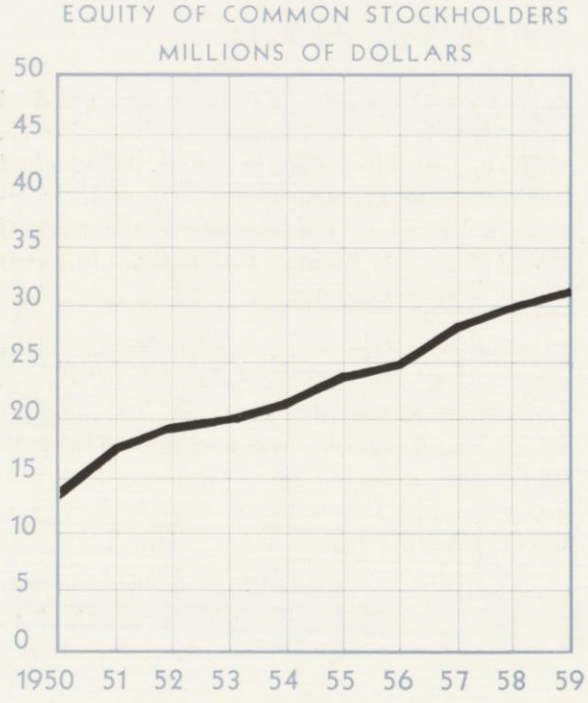
During 1959 working capital increased by $2,882,119, and at the end of the year amounted to $10,210,277. The increase in working capital is accounted for below:

ADDITIONS TO WORKING CAPITAL:	
Net income from operations	$3,909,639
Depreciation and depletion not requiring funds	2,530,200
Other sources	396,234
TOTAL ADDITIONS	$6,836,073
REDUCTIONS IN WORKING CAPITAL:	
Additions to property, equipment, and timberlands	$2,471,730
Cash dividends paid to stockholders	1,398,112
Miscellaneous	84,112
TOTAL REDUCTIONS	$3,953,954
NET INCREASE IN WORKING CAPITAL	$2,882,119

Cash flow as determined by the Company for 1959 represents net cash generated from operations after taxes and all other charges amounting to $6,439,839. This represents a 10.4% increase over 1957, the previous high.



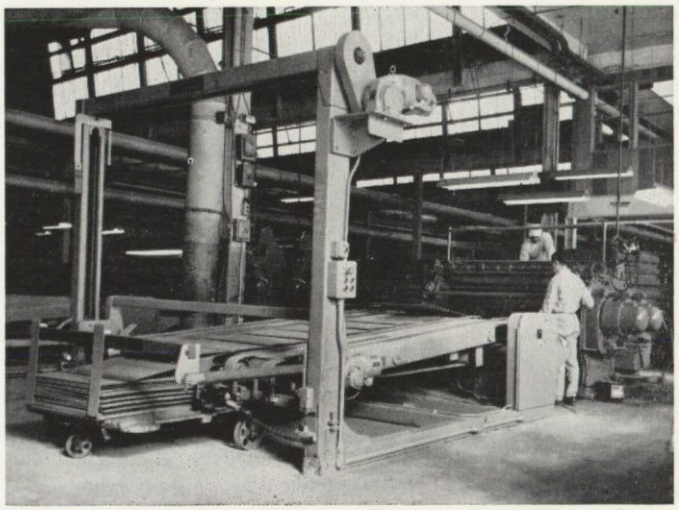




EMPLOYEE RELATIONS AND BENEFITS:

Steady employment, good wages and salaries, and other benefits contribute to the security of our employees and result in an unusually low turnover among our personnel. Besides a non-contributory retirement annuity plan, the Company provides group life insurance and accident, health and hospital coverage.

The Company also helps employees pay for training courses that enable them to increase their proficiency on the job. This is done only on recommendation of a supervisor and on the employee's completion of standard courses, with good marks. Both Company and employees have benefited from this program.



Automatic stacker on printer-slotter at David Weber Co.

OPERATIONS OF SUBSIDIARY:

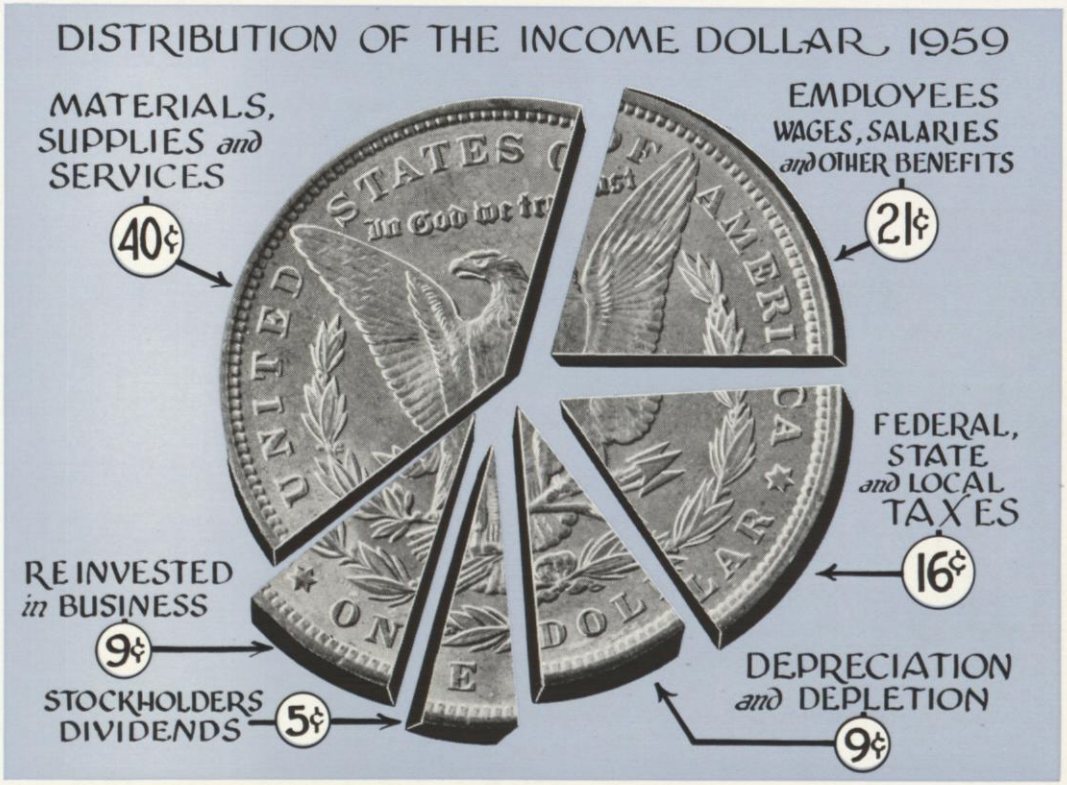
Both sales and profits of Chesapeake's subsidiary, David Weber Co., Philadelphia, Pennsylvania, showed improvement during the year, in part due to a slightly stronger market for corrugated containers. The Company increased its operating efficiency by installing new handling devices at the delivery end of the plant's two corrugating machines and new automatic stackers on two of the five printer-slotters. The latter are electronically controlled.

A TRIBUTE TO ELIS OLSSON:

A portrait of the late Elis Olsson was unveiled in the General Office Building on November 16, 1959, a year after Mr. and Mrs. Olsson had celebrated the fortieth anniversary of their arrival in Virginia. The painting is the work of the noted artist, William F. Draper, and hangs in the reception room.

Employees and associates of Mr. Olsson commissioned the portrait at the time of the anniversary as a memorial to his leadership and their affection and regard. Many of these friends of the family attended the unveiling, and saw little Miss Lisa Olsson, his granddaughter, draw the curtain that revealed the portrait.

Mrs. S. G. Olsson and Lisa Olsson at portrait unveiling.



	Thousands		Cents per Total Income Dollar	
	1959	*1958*	*1959*	*1958*
The Company's receipts in 1959 and 1958 were as follows:				
From sale of its product and other income	$27,720	$23,886	100¢	100¢
These receipts were used				
For purchase of materials, supplies, services, etc.	11,097	9,844	40	42
For wages, salaries, and other employee benefits	5,845	5,195	21	20
For Federal, State, and local taxes	4,338	3,506	16	16
To provide for depletion of timberlands and for depreciation of plant and equipment	2,530	2,425	9	8
For cash dividends and payments to stockholders in lieu of issuing fractional shares in connection with stock dividend	1,441	1,388	5	5
For investment in the business	2,469	1,528	9	9

A FIVE-YEAR COMPARISON

SALES AND INCOME	Net sales
	Earnings before depreciation, depletion, and income taxes
	Depreciation and depletion
	Federal and State income taxes
	Net income
	Per share*
	Per cent of sales
FINANCIAL CONDITION	Net working capital
	Property, plant, and equipment (net)
	Gross additions to properties and equipment
STOCKHOLDERS' EQUITY	Number of common shares outstanding
	Cash dividends per share*
	Earnings retained for use in the business
	Total stockholders' equity
	Per share*
OPERATING AND OTHER STATISTICS	Finished product produced by parent company (tons)
	Acres of timberlands owned
	Wages, salaries, and other benefits to employees
	Number of employees (parent and subsidiary)

*Based on shares outstanding at January 3, 1960.

1959	*1958*	*1957*	*1956*	*1955*
$27,119,559	$23,617,096	$26,549,781	$25,963,690	$24,063,072
$10,777,504	$8,641,245	$9,953,594	$9,018,011	$9,871,971
$2,530,200	$2,425,510	$2,110,755	$1,806,574	$1,637,409
$4,337,665	$3,299,520	$4,122,366	$3,855,767	$4,316,391
$3,909,639	$2,916,215	$3,720,473	$3,355,670	$3,918,171
$3.28	$2.45	$3.13	$2.82	$3.29
14.4%	12.3%	14.0%	12.9%	16.3%
$10,210,277	$7,328,158	$4,957,945	$6,538,869	$5,804,549
$19,960,562	$20,142,068	$21,405,398	$17,975,265	$14,929,090
$2,472,000	$1,178,000	$5,434,300	$4,899,400	$3,143,200
1,190,405	1,156,656	1,156,656	1,156,656	578,328
$1.20	$1.20	$1.20	$1.20	$1.375
$2,469,222	$1,528,228	$2,332,486	$1,967,683	$2,327,769
$31,604,860	$29,135,638	$27,607,410	$25,274,924	$23,307,256
$26.55	$24.48	$23.19	$21.23	$19.58
216,725	183,568	200,396	192,308	197,981
214,500	208,000	204,500	195,000	179,000
$5,845,000	$5,195,000	$5,452,000	$5,193,000	$4,767,000
846	844	862	838	802

THE CHESAPEAKE CORPORATION OF

CONSOLIDATED

January 3, 1960, and

ASSETS

	Jan. 3, 1960	*Dec. 28, 1958*
CURRENT ASSETS:		
Cash	$ 2,979,668	$ 1,964,855
U. S. Government obligations, at amortized cost	5,107,907	2,480,679
Less: Amount deducted from Federal income tax liability (contra)	(2,638,822)	(2,028,287)
Accounts receivable, less allowances for doubtful accounts (1-3-60, $80,567; 12-28-58, $83,258)	2,924,479	3,047,846
Notes receivable	282,806	549,048
Miscellaneous receivables and accruals	185,808	56,551
Inventories (at lower of cost or market):		
Finished goods and goods in process	429,263	207,175
Manufacturing materials and supplies	2,330,970	2,162,636
Prepaid expenses	194,052	226,087
TOTAL CURRENT ASSETS	$11,796,131	$ 8,666,590
OTHER ASSETS:		
Cash surrender value of life insurance	$ 13,401	$ 173,812
Mortgage notes receivable	375,000	425,000
Other notes receivable	963,988	926,120
Sundry advances and receivables	81,632	140,480
	$ 1,434,021	$ 1,665,412
PROPERTY, PLANT, AND EQUIPMENT (at cost):		
Land	$ 96,282	$ 86,228
Buildings	5,079,402	4,962,363
Machinery, equipment, and construction	24,620,632	23,402,809
	$29,796,316	$28,451,400
Less: Accumulated depreciation and amortization	15,011,661	13,210,043
	$14,784,655	$15,241,357
Timberlands and cutting rights (net after deducting accumulated depletion)	5,175,907	4,900,711
NET PROPERTY, PLANT, AND EQUIPMENT	$19,960,562	$20,142,068
	$33,190,714	$30,474,070

The accompanying notes are a part of the financial statements.

VIRGINIA AND SUBSIDIARY COMPANY

BALANCE SHEETS

December 28, 1958

LIABILITIES AND STOCKHOLDERS' EQUITY

	Jan. 3, 1960	*Dec. 28, 1958*
CURRENT LIABILITIES:		
Accounts payable	$ 628,086	$ 502,408
Dividends payable	357,122	346,997
Salaries, wages, and commissions	96,671	99,321
Payroll and withholding taxes	100,519	82,277
State income taxes	403,456	307,429
Federal income tax	2,638,822	2,028,287
Less: Amount deducted from U. S. Government obligations (contra)	(2,638,822)	(2,028,287)
TOTAL CURRENT LIABILITIES	$ 1,585,854	$ 1,338,432
STOCKHOLDERS' EQUITY:		
Capital stock—common, $5 par value: Authorized, 2,000,000 shares; issued and outstanding, 1,190,405 shares 1-3-60 and 1,156,656 shares 12-28-58	$ 5,952,025	$ 5,783,280
Other capital (Note 1)	3,807,831	2,474,745
Retained earnings	21,845,004	20,877,613
	$31,604,860	$29,135,638
	$33,190,714	$30,474,070

The accompanying notes are a part of the financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Years Ended January 3, 1960, and December 28, 1958

	Year Ended	
	Jan. 3, 1960	*Dec. 28, 1958*
Balance at beginning of year	$20,877,613	$19,349,385
Add: Net income for the year	3,909,639	2,916,215
	$24,787,252	$22,265,600
Deduct:		
Cash dividends declared—$1.20 per share	$ 1,398,112	$ 1,387,987
Common stock dividend—3% (Note 2):		
Stock issued, 33,749 shares @ $44.50 per share	1,501,831	—
Cash in lieu of fractional shares	42,305	—
	$ 2,942,248	$ 1,387,987
Balance at end of year	$21,845,004	$20,877,613

NOTES TO FINANCIAL STATEMENTS

1. Other capital:

Balance, December 29, 1958, consisting of:	
Paid-in surplus	$ 161,425
Retained earnings permanently capitalized in excess of par value of shares issued as a stock dividend	2,313,320
TOTAL	$2,474,745
Add: Excess of market value over par value of 33,749 shares of common stock issued as a 3% stock dividend on December 31, 1959	1,333,086
Balance, January 3, 1960	$3,807,831

2. On September 17, 1959, the Board of Directors declared a 3% common stock dividend, payable on December 31, 1959, to stockholders of record at the close of business on December 10, 1959. Retained earnings was charged with $1,501,831, representing the market value of the 33,749 shares issued, and with $42,305 for the amount paid in cash in lieu of fractional shares. Capital stock was credited with $168,745, the par value of the shares issued, and $1,333,086 was credited to other capital.

3. Commitments for the purchase or construction of property, plant, and equipment amounted to approximately $1,121,000 at January 3, 1960.

VIRGINIA AND SUBSIDIARY COMPANY

STATEMENT OF CONSOLIDATED INCOME

For the Years Ended January 3, 1960, and December 28, 1958

	Year Ended	
	Jan. 3, 1960	*Dec. 28, 1958*
SALES AND OTHER INCOME:		
Sales, after deducting returns, allowances, and freight	$27,119,559	$23,617,096
Gain on sale of property and equipment	238,335	104,464
Interest earned and other income	362,182	165,063
	$27,720,076	$23,886,623
COST OF GOODS SOLD, EXPENSES, AND OTHER DEDUCTIONS:		
Materials, supplies, and other manufacturing costs	$ 9,987,283	$ 9,084,513
Wages, salaries, and employees' benefits	5,844,960	5,194,767
Depreciation and depletion	2,530,200	2,425,510
Selling and administrative expenses	642,267	544,303
Discounts allowed	244,709	199,459
Miscellaneous	25,545	16,174
Taxes:		
Federal income	3,932,552	2,990,806
State income	405,113	308,714
Other	197,808	206,162
	$23,810,437	$20,970,408
NET INCOME	$ 3,909,639	$ 2,916,215
NET INCOME PER SHARE OF COMMON STOCK	$3.28	$2.45*

*Restated for comparative purposes to reflect 3% stock dividend issued in 1959.

ACCOUNTANTS' REPORT

To the Board of Directors of
The Chesapeake Corporation of Virginia:

We have examined the consolidated balance sheet of The Chesapeake Corporation of Virginia and its subsidiary company as of January 3, 1960, and the related statements of consolidated income and retained earnings for the year (fifty-three weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings present fairly the financial position of The Chesapeake Corporation of Virginia and its subsidiary company at January 3, 1960, and the consolidated results of operations for the year (fifty-three weeks) then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LEACH, CALKINS & SCOTT
Certified Public Accountants

Richmond, Virginia,
January 29, 1960.